

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| A REVIEW OF THE RATES AND CHARGES |) | |
| AND INCENTIVE REGULATION PLAN OF |) | CASE NO. 90-256 |
| SOUTH CENTRAL BELL TELEPHONE COMPANY |) | |

O R D E R

On May 16, 1994, South Central Bell Telephone Company ("South Central Bell") filed Schedules for the May 1994 Point-of-Test pursuant to its Incentive Regulation Plan ("Incentive Plan"). In addition, it filed a proposal to resolve the pending dispute relating to GTE South Incorporated, and Contel of Kentucky, Incorporated, d/b/a GTE Kentucky ("GTE") billing and reporting errors which arose at the November 1993 Point-of-Test.

BACKGROUND

On December 2, 1993, the Commission issued an Order deferring the November 1993 Point-of-Test pending an investigation into the consequences of GTE's billing and reporting errors. These errors occurred during the period of March 1992 through July 1993 and involved the misimplementation of rates, overbilling of customers, and misreporting of revenues to South Central Bell. GTE has subsequently corrected its rate sheets and made proper refunds to its customers; however, a dispute remains between GTE and South Central Bell relating to the misreporting of revenues. The parties agree that GTE overpaid South Central Bell \$1.9 million as a result of the errors. However, South Central Bell contends that it is not

liable for repayment because the GTE errors resulted in excess reductions in the points-of-test occurring in May 1992, November 1992, and May 1993. The GTE errors resulted in increased reported earnings for South Central Bell. When these increased earnings flowed through the Incentive Plan, greater rate reductions were generated than would otherwise have occurred. Total excess reductions resulting from the GTE errors were \$1.1 million annually. The cumulative harm to South Central Bell through May 1994 is \$2.0 million.

The primary beneficiaries of the excess reductions are the InterExchange Carriers ("IXCs"). AT&T Communications of the South Central States, Inc. ("AT&T") and MCI Communications Corporation ("MCI") have actively participated in this investigation. The IXCs oppose any solution that would increase intrastate access rates or return monies previously received.

In the November 1993 Point-of-Test, South Central Bell attempted to resolve the problem by modifying the established schedules to negate the excess reductions. This action was strongly opposed by the IXCs, and the Commission found South Central Bell's modifications violated its Incentive Plan. The Commission also deferred the November 1993 Point-of-Test and initiated this investigation.

At the informal conference, held April 12, 1994, all parties agreed that this matter could be submitted to the Commission without

a formal hearing. Based on the filings of the parties, following is a summary of the consequences of the GTE error:

1. During the period of June 1992 through May 1994, South Central Bell received \$2.0 million less in revenues than it would have absent the errors.

2. Prospectively, South Central Bell will receive \$1.1 million less in annual revenues than it would have absent the errors.

3. During the period of June 1992 through May 1994, the IXC's paid \$1.8 million less in access charges than they would have absent the errors.

4. Prospectively, the IXC's will pay \$1.0 million less in annual access charges than they would absent the errors.

5. GTE has suffered a \$1.9 million cash loss as a result of the errors.

SOUTH CENTRAL BELL PROPOSAL

In conjunction with its May 1994 Point-of-Test filing, South Central Bell filed a proposal to resolve the inequities resulting from the GTE error. The proposal is based on the results of the November 1993 Point-of-Test and the consequences of its deferment. The November 1993 Point-of-Test called for rate reductions of \$2.5 million: \$1.2 million in permanent reductions and \$1.3 million in 6 month temporary reductions. As the reductions were not timely implemented, South Central Bell has, since December 1993, charged toll and access rates greater than it would have through strict

adherence to the Incentive Plan. Additional revenues generated were approximately \$1.2 million, \$1.1 million of which is attributable to the IXC's. Under South Central Bell's proposal, it would keep these additional revenues in settlement of past excess reductions to the IXC's. As no permanent increases to IXC rates would be made, the IXC's would continue to receive a \$1.0 million annual benefit. Moreover, South Central Bell would implement the permanent reduction of the November 1993 Point-of-Test with the full amount going to IXC rates. South Central Bell would normally be entitled to a portion of this reduction in the form of lower toll rates. The \$1.3 million temporary reduction would be disregarded. Finally, GTE would forgive \$.8 million of its claim against South Central Bell, with South Central Bell agreeing to pay GTE \$1.1 million.

AT&T PROPOSAL

On May 14, 1994, AT&T filed its proposal for resolution of the GTE reporting error. The proposal contained two alternatives.

Under the first alternative, IXC intrastate access rates would be reduced by approximately \$6 million to mirror interstate levels. This is not a reasonable proposal because it accrues further gains to the parties that are benefitting from the error and does nothing to compensate the harmed party.

The second alternative adopts the South Central Bell plan but attaches the additional condition that South Central Bell's toll rates be increased by \$2.0 million to balance the relationship

between interstate access and intraLATA toll rates. While this would mitigate the financial harm to South Central Bell, it would increase rates to intraLATA long distance customers. It is inappropriate to shift the damages caused by the GTE error to this uninvolved group. Moreover, as one of the incentive plan's priorities is the reduction of intraLATA toll rates, it would be incongruent to raise them instead. The Commission, therefore, rejects this alternative as well.

ATTORNEY GENERAL COMMENTS

On June 3, 1994, the Attorney General filed comments recommending that the Commission adopt South Central Bell's proposal to resolve the GTE issue.

DECISION

South Central Bell has been harmed, the IXC's have benefitted, and South Central Bell and GTE face likely litigation. While there is no specific provision in the Incentive Plan that addresses this situation, the Commission has the authority to correct inequities that occur as a result of unforeseen errors. KRS 278.030 mandates that rates be fair, just, and reasonable. Past application of the Incentive Plan caused unfair rates to the extent that IXC access rates were excessively reduced due to reporting errors by GTE.

The appropriate solution to this problem is the implementation of South Central Bell's May 16, 1994 proposal. This solution resolves the dispute between GTE and South Central Bell, mitigates

the harm to South Central Bell to its satisfaction, and yields significant historical and future benefits to the IXCs.

Therefore, the Commission, having reviewed the proposals and comments of all parties, and having been otherwise sufficiently advised, HEREBY ORDERS that:

1. The one point two (\$1.2) million permanent reduction from the November 1993 Point-of-Test be made to IXC access charges effective June 1, 1994.

2. The temporary reduction from the November 1993 Point-of-Test be disregarded.

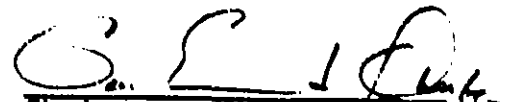
3. GTE forgive eight hundred thousand (\$800,000) dollars of its claim against South Central Bell.


4. South Central Bell pay GTE one point one (\$1.1) million in settlement of the reporting error claim.

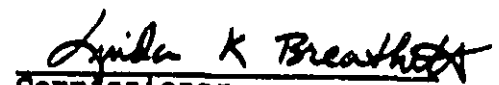
5. Within 30 days of the date of this Order, South Central Bell shall file tariffs reflecting the one point two (\$1.2) million reduction to access charges.

Done at Frankfort, Kentucky, this 14th day of July, 1994.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director